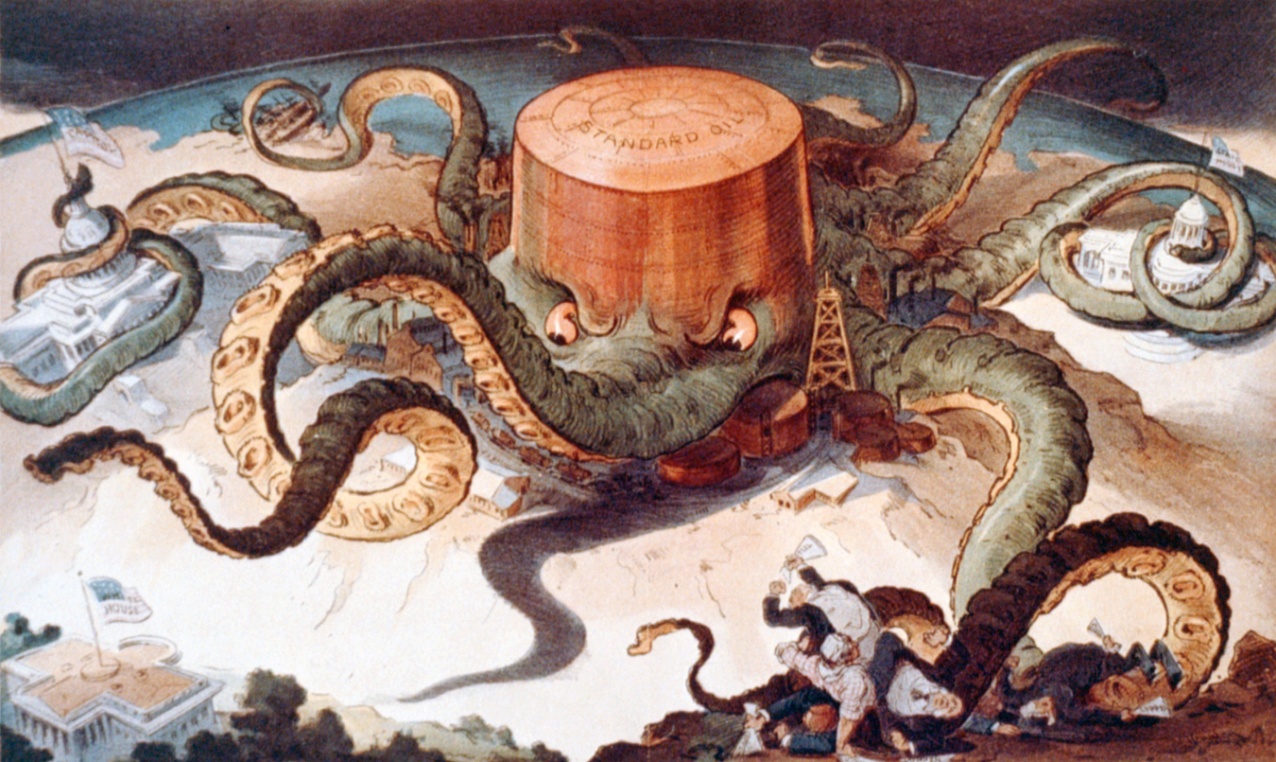
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**NOTES ON TRUSTS – Chapter 18**



OK, people. I’ll admit it. I think trusts are bad. Very, very, bad! Here’s why I think so. TRUSTS DO NOT ALLOW ***COMPETITION!*** And competition is very important in a capitalist society, such as the one in which we live.

Capitalist societies are ones in which individuals like you and I are able to participate freely in economics. We can start businesses with very few restrictions. All you need is some capital (land, money, resources) and some work ethic. And the government doesn’t interfere very often. Yes, you need to purchase a business license. There are a handful of illegal markets which the government strictly prohibits–drugs, high-powered weapons, killing folks recreationally… but for the most part, anything that sells is OK! Freedom to choose your own future economically – where you will work, who you will work for, what you will do…

And even when we can’t start our own businesses, we participate in the economy in other ways. We are all consumers. We buy stuff. In fact, we determine the price of goods at the store. No? You don’t think so? Well, all right, it’s not so obvious. But it’s true. Consider this. What if Coca-Cola cost $9.99 for a two-liter? Or Vitamin water was $5.00 a bottle? Would you buy that?

***NO***. You would not. And that’s why it costs much, much less than that. Companies can only sell their products for as much as people are willing to spend. And the good folks at Coca-Cola and Vitamin water realize that we’ll all drink tap water or Pepsi, or Propel or some other product for much less money rather than pay some ridiculous price for their product. Companies must sell their products to make money, so they price their product to sell! The Market (we consumers) determines prices. Companies can only charge what you are willing to pay. That’s a free market. That’s good for us, because companies compete for our business. We usually get better products for less money over time.

Trusts undermine the free market by ***not playing fairly***. This is a little complicated, so I’m going to try to simplify it some. We’ll use John Rockefeller’s Standard Oil Company as an example. In 1880, the Standard Oil Trust controlled about 95% of the oil in the United States of America. They were a large and powerful trust, and they were in control of an industry which Americans relied upon for a variety of items – kerosene for light, and oil for fuel which might heat their homes or power their automobiles. (OK, there really weren’t very many automobiles then, but …bear with me.)

Let’s just make up an example. Say there are three gas stations in town. There’s Standard Oil, there’s Royal Dutch Shell, and there’s Mom & Pops’ Petrol Shops… in Peoria, IL.

**JOHN D. ROCKEFELLER’S**

# Standard Oil Company

**GAS = $5.00 a GALLON**

Mom and Pops’ Petrol Shop

GAS: $3.00 per gallon.

We’re like your parents! Buy from us.

A reasonable consumer would look at these signs, and decide to purchase from Mom and Pop’s Petrol Shop. After all, they are $2.00 per gallon cheaper, and they’re your Mom and Dad! In a free market, they would sell much more oil than Standard Oil or the Royal Dutch Shell Company. (Assuming that their product is just as good; in this case it is!)

Eventually, Royal Dutch Shell and Standard Oil would just have to lower their prices, or they would be run out of business. That’s fair play. It’s competition. Consumers would gain. ***SEE:***

**JOHN D. ROCKEFELLER’S**

# Standard Oil Company

**GAS = $2.99 a GALLON**

Mom and Pops’ Petrol Shop

GAS: $2.98 per gallon.

We’re like your parents! WE FED YOU!

That’s how its supposed to work! Competition lowers prices and consumers benefit. They usually get a better quality product for less money over the course of time. But trusts mess that all up.

**JOHN D. ROCKEFELLER’S**

# Standard Oil Company

**GAS = $0.39 a GALLON**

**Hahahahaha.**

A trust is a combination of businesses which come together in order to eliminate competition. This is what John Rockefeller did. He had a very large group of businesses, which would work together, to squeeze out competition from groups like Mom and Pop’s Petrol Shop. Let’s say Rockefeller and the folks at Royal Dutch Shell formed a trust. And that that trust controlled about 95% of the oil in America as of 1880. They have gas stations from Kansas City to Kalamazoo, and from Jacksonville to Juneau and from Waco, TX to Walla-Walla, Washington. They are ***BIG***!

So they decide they’re very tired of Mom and Pops’ Petrol Shop in Peoria and all this competition nonsense. This is what they do. They raise the price of gasoline everywhere else! Except Peoria, IL. They raise the price just a couple of pennies in all of their other stores, and they ***LOWER*** the price of gas in Peoria to say, $.39 per gallon. They are selling gas for less than they spend to make it. They are losing money, but they can do this, because they have raised their prices everywhere else in America. They make their money back elsewhere. But Mom and Pops? They can’t lower their prices. If they lose money, they go out of business. Or, if they don’t lower their prices, err….

They go out of business! And now, John Rockefeller’s Oil company doesn’t have any competition in town at all. So what do you think will happen next to the price of oil?

$.39? Not for long, sucker.

$1.39? I think maybe not.

$2.39? Nay.

$3.39? Nope.

$4.39? Nah-uh.

**TRUSTS = NO COMPETITION**

**No Competition = HIGH PRICES**

**HIGH PRICES = BAD for CONSUMERS. We ALL LOSE!**

**QUESTIONS ABOUT TRUSTS:**

1. Describe some of the most important characteristics of a capitalistic society –
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   2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
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2. How do consumers determine the price of goods? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. **THE LAW OF SUPPLY –**

If the supply of a product INCREASES, and the demand remains the same, then the price of the product will - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

If the supply of a product DECREASES and the demand remains the same, then the price of the product will - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. **THE LAW OF DEMAND –**

If the demand for a product INCREASES and the supply of that product remains the same, then the price of the product will - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

If the demand for a product DECREASES and the supply of that product remains the same, then the price of the product will - \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. In an economy with fair competition, which company are most consumer’s most likely to purchase their products (in this case gasoline) from? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. What is the definition for a trust provided in this passage? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. How do trusts force small businesses out of the market? ­\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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1. What other options might the Standard Oil Company have offered Mom and Pop’s Petrol Shop?

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1. If you were Mom and Pop, what would you have done in order to keep your business and compete against Standard Oil Company? Could you have done anything to stop the Standard Oil Octopus?

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